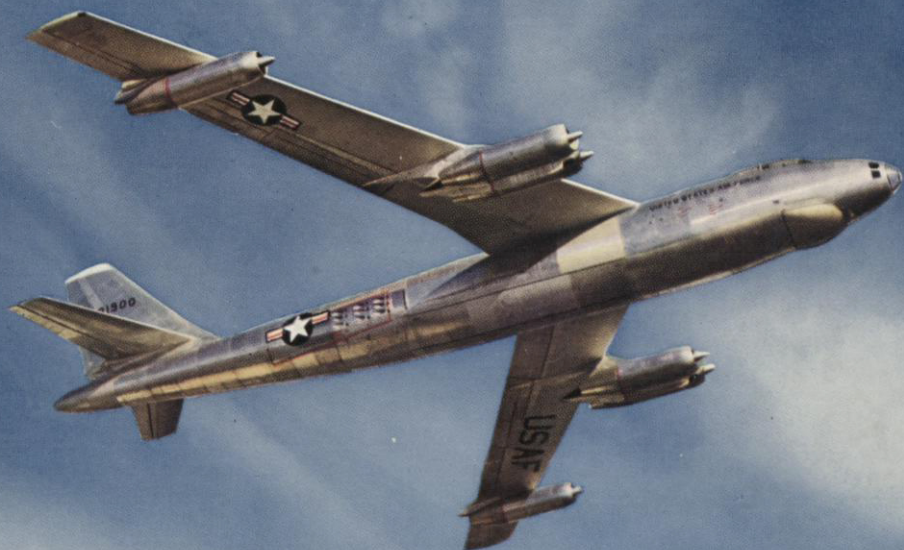


1950

REPORT TO STOCKHOLDERS

YEAR ENDED DECEMBER 31ST



BOEING AIRPLANE COMPANY

ON THE COVER—The Boeing B-47 Stratojet, in production for USAF, is the world's fastest known bomber. Its speed is over 600 miles per hour.



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ANNUAL
1950
REPORT



MESSAGE FROM THE PRESIDENT

To the Stockholders of Boeing Airplane Company:

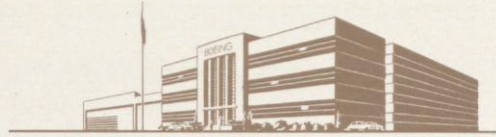
In many important respects, the year 1950 was one of the most satisfactory in the history of the company. Substantial progress was made in further advancing the company's products through research, development and design, and in reducing costs through increased manufacturing efficiency. A record number of airplanes for peacetime operations was delivered, labor harmony was in evidence and the development of new products was rapidly pushed forward.

Sales during the year, totaling \$307,250,982, were at the highest level since 1945. The net earnings amounting to \$10,826,558, although modest in comparison with total sales, were the highest in the history of the company.

Continuing and substantial efforts in research, development and design resulted in an ever-increasing volume of orders for the company's products. The improvement in manufacturing efficiency, which began immediately following the strike in 1948, continued throughout 1950. As a result, the government has benefited by receiving price reductions in the amount of \$45,369,182 in its contracts with the company.

We have intensified our efforts to keep the 2,300 Boeing supervisors fully informed of developments and problems. They have exhibited an increased interest in the affairs of the company and a desire to improve their own efficiency and that of the working force. Much of the credit for improved performance can be attributed to their efforts.

We desire to acknowledge the splendid service of the employees — union and non-union alike — during the year. We feel that a sincere effort to understand and to cooperatively solve mutual problems was made by employees, union officials and management. An improved position for both the employees and the company has resulted.



The present international situation has made it necessary for the government to procure a substantial quantity of aircraft for national defense. We are confident that products bearing the Boeing name will continue to be in the forefront of the procurement program, but security regulations do not permit a full discussion of such projects.

The present outlook is for a reduction in net earnings during the year 1951. In part, this will result from higher income taxes and the Excess Profits Tax. Other factors include amortization over a five-year period of facilities procured under Certificates of Necessity and a lower rate of profit on government business. The company also will be working on the initial phases of several contracts under which deliveries and related profits will be recorded during subsequent periods.

Your company is endeavoring to give our government the greatest possible return for the defense dollars used to purchase our products. At the same time, it must be recognized that the current requirement for extensive research coupled with the need for additional facilities to handle the increasing work load makes it essential that companies in this industry be permitted to earn and retain reasonable profits (after payment of equitable dividends) for reinvestment in the business.

Our government has placed confidence in your company by relying extensively upon it and its products for the safeguarding of the nation, and your management, in turn, feels deeply the responsibility that has been placed upon it. Every effort of which Boeing is capable will be devoted to continuing the design and manufacture of outstanding products essential to the welfare of our country.

By order of the Board of Directors,

March 14, 1951

WILLIAM M. ALLEN
President

PRINCIPAL PRODUCTION PROJECTS

C-97 Stratofreighter

Substantial additional orders have been received for the Stratofreighter, and deliveries are being accelerated. Provision has been made in the Stratofreighter for the incorporation of Boeing-designed inflight refueling equipment. The installation is of such a nature that the airplane can be converted from a cargo airplane to a tanker, or vice versa, in a few hours. This novel feature materially increases the utility of the airplane to the Air Force. The Stratofreighter also is a troop-carrying airplane and, in addition, has rendered outstanding service as a flying ambulance in returning wounded veterans from the Orient. In the transpacific run it can carry 42 stretcher cases, 21 ambulatory patients, plus nurses, orderlies and crew. Because of the pressurized cabin and the ability to fly at high speed over the weather, our wounded are returned quickly with a minimum of discomfort. The range of these aircraft is illustrated by many flights that now are being made directly from Japan to the Midwest with one stop in the Hawaiian Islands.

B-47 Stratojet

Production of B-47s is continuing under an accelerated schedule at the Wichita division. Problems inherent in the volume production of an extremely complex airplane are arising but are being solved. Performance has exceeded expectations, and an extensive flight-test program is in process which may point the way to further refinements. The Stratojet program appears to be one of the largest planned for any model of airplane. The high regard of the military services for this airplane is attested by the fact that the Air Force plans to have it built also by Douglas and Lockheed at reactivated war-time plants.

A high ranking Air Force officer has said, "The B-47 is the white hope of our medium-bomber force. It is the airplane which may well

Boeing C-97 Stratofreighters form transpacific link in aerial lifeline that flies wounded from Korean front to home front.



become the workhorse of any major war, the same as the B-17s and the B-29s carried the load in World War II. This airplane is the only advanced jet design available in its category which possesses desired range, altitude, speed, armament and bomb-carrying requirements."

B-52

Work is progressing at a satisfactory rate on the manufacture of two multijet heavy-bombardment prototype airplanes. The runway of Boeing Field is being extended from 7,500 to 10,000 feet in length to permit flights of the XB-52 at Seattle. The cost of the runway extension is being financed with King County and federal funds.

On March 1, 1951, the Air Force announced that it would place a contract with Boeing for the production of B-52 aircraft at Seattle. The number of B-52s to be produced was not disclosed.

B-50 Superfortress

The last B-50 previously reported on order has been delivered. This airplane, a development of the wartime B-29, today incorporates many advancements which materially add to its reliability, range and striking power. The B-50 will be a potent weapon of the Air Force for some time to come. A small follow-on order for additional Superfortresses has been received.

B-29 and B-50 Modification

The 1949 report stated that the company had carried on extensive modifications of B-29 and B-50 airplanes both at Wichita and Seattle. This work was consolidated in Seattle during 1950, and has become a major project.

Included in recent modifications incorporated in the B-50 are installation of inflight refueling equipment, improved armament, and other changes designed to adapt the airplane to special purposes.

The strategic bombing in Korea has been carried out almost entirely by B-29s.

Boeing Stratocruisers, flown by four major airlines, link four continents. Photo shows Pan American 'Cruiser over Rio de Janeiro.



OTHER PROJECTS

Gas Turbine

Development of the Boeing gas turbine engine has been continued as a special project, financed partly from company funds and partly by contracts from the Department of the Navy. Management is convinced that potential applications of the gas turbine warrant thorough exploration of the field, and this project has been given special status so that engineering, development and production problems will receive the required attention. The turbine project has been assigned office and manufacturing area at Seattle Plant 1 and furnished with basic facilities. Suitable test cells and specialized machine tools will be provided.

The company is investigating such practical applications as primary power plants for trucks, boats and small airplanes, power for operating electric generators or pumps and auxiliary power for industrial use. Continued emphasis will be placed on investigations leading to increased power ratings, decreased fuel consumption, and increased reliability. Experimental findings to date indicate that these improvements can be attained.

A contract has been received from the Navy Bureau of Ships for turbines which will be used to drive generators supplying electric power for minesweepers.

Guided Missiles

Research and development work in the field of ground-to-air guided missiles has been receiving the attention of Boeing engineers for several years. Valuable experience has been gained in this field through laboratory studies and from numerous test vehicles which have been fabricated and flown. Under government contract, the company is expanding its activities in this field.

Principal production at Seattle - Renton is manufacture of C-97s, modification of B-29 and B-50 bombers. Here, in Renton factory, Boeing Superforts undergo "mod" changes.

Model 377 Stratocruiser

The last Stratocruiser has been delivered, the test airplane referred to in the previous Annual Report having been sold to Pan American World Airways. Passenger acceptance has been highly satisfactory. When the airline passenger has a choice, preference is usually in favor of the Stratocruiser. As of December 31, 1950, these airplanes had logged approximately 33,500,000 plane miles, principally during Pacific and Atlantic Ocean crossings. Passengers carried to that date totaled 613,500.

In a statement British Overseas Airways Corporation has said, "For an aircraft introduced into North Atlantic service so recently, the Stratocruiser has given us much confidence in its operation. This coming summer we feel sure — and are planning accordingly — that daily utilization will be still further increased."



RESEARCH AND DEVELOPMENT

It is a fundamental policy of your company to develop and maintain research organizations and laboratories which play an important role in keeping Boeing a leader in the aircraft industry. Many previously unsolved problems arise in the development of an airplane such as the B-47. Painsstaking research with the aid of extensive test facilities constitutes the background for the development of this airplane in the 600 mile per hour class, capable of flying long distances at high altitudes while carrying heavy loads with a crew of three as contrasted with a crew of eleven in the B-29. It is sustained effort of this type continued over the past 35 years which places Boeing in its present position in the aircraft industry.

Commercial Airplanes

The company has developed preliminary designs for several configurations of commercial jet transport airplanes. Up to this time production work has not been authorized because of the heavy investment required and the corresponding risk involved.



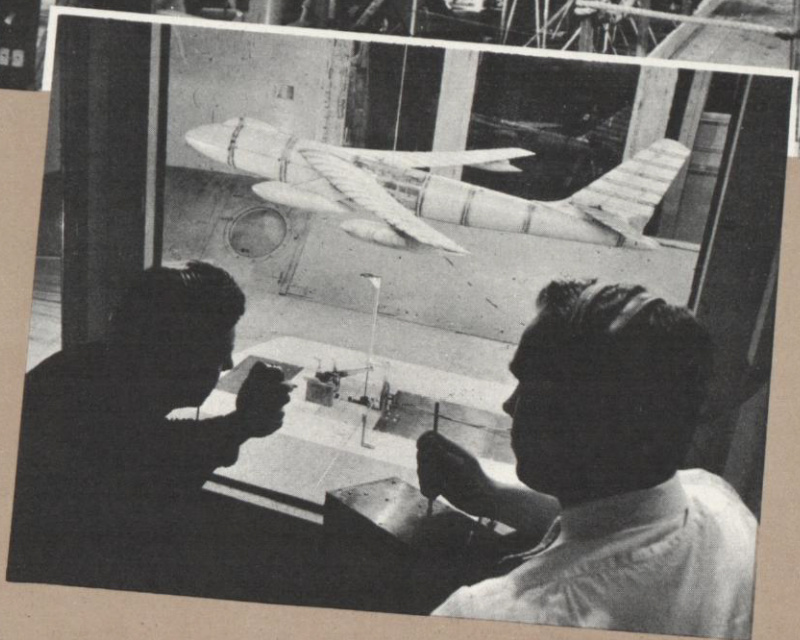


ABOVE—In test program, B-47 wing withstood bending under loads exceeding 700,000 lbs.

FAR LEFT—Boeing electrical laboratory contributes much to developing the role of electric power in aircraft systems.

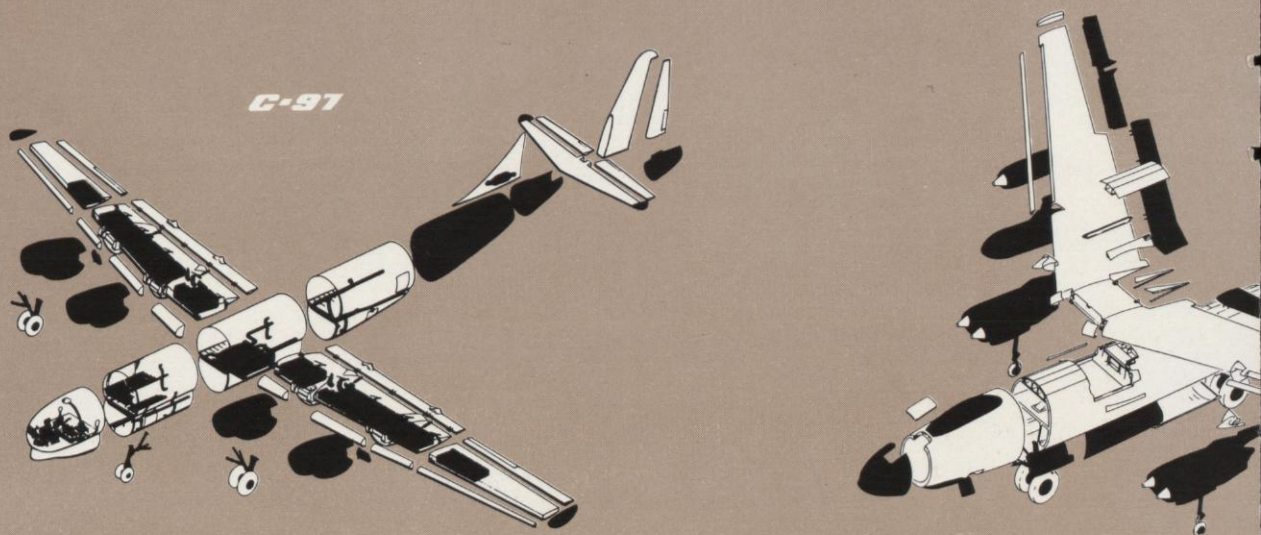
NEAR LEFT—Gas turbine development continues. A Navy contract has been obtained.

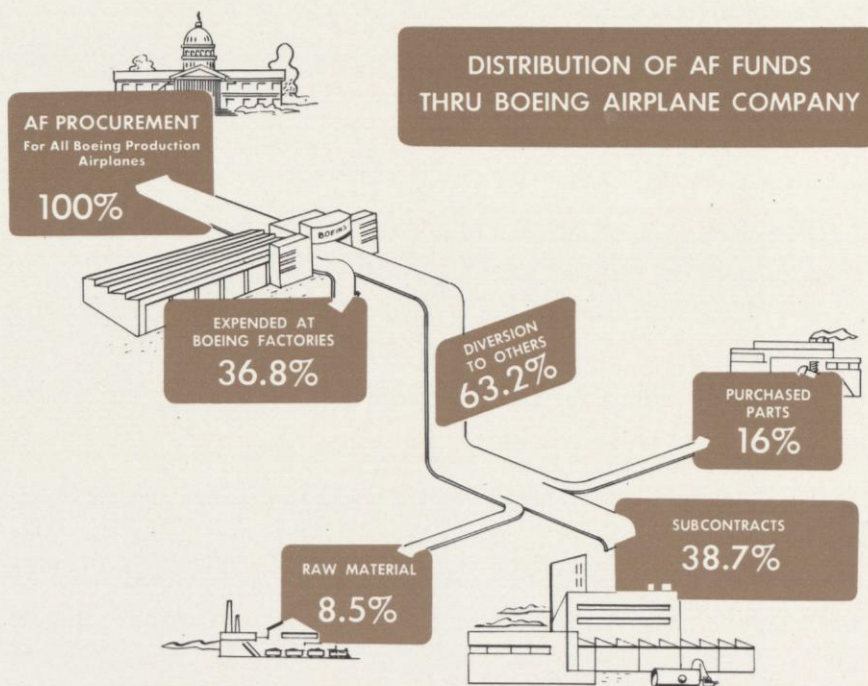
RIGHT—Company-owned wind tunnel at Seattle, important to Boeing design success, soon will achieve supersonic speed.



SUBCONTRACTING

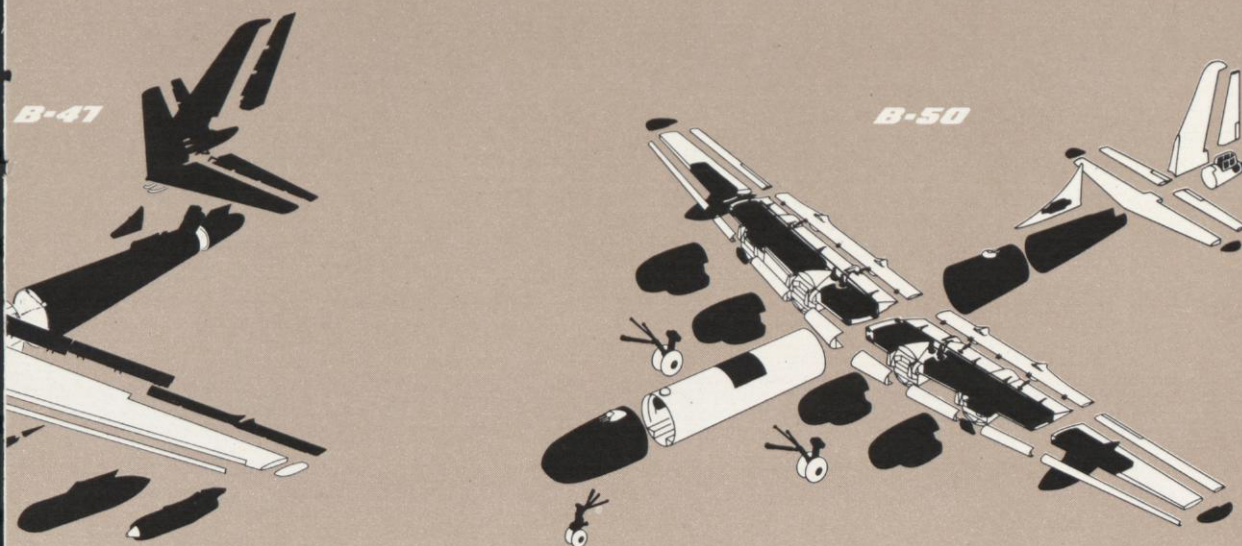
Subcontracting of parts, assemblies and major components of the airplane serves the valuable purpose of permitting substantial production without a corresponding requirement for expanded manufacturing facilities. A subcontracting program also assists in leveling fluctuations in production activity. The government encourages subcontracting because it develops and sustains industrial organizations and facilities throughout the country and puts the aircraft industry in a position to expand more rapidly in the event of an emergency. The major subcontractors of Boeing are located in Southern California, the Midwest and the Southwest. At the present time approximately 40% of the manufacturing work on the average Boeing airplane is subcontracted to others.





ABOVE—Chart shows extent to which subcontractors, suppliers participate in Boeing work.

BELOW—Production program includes building of blacked-in sections by subcontractors.



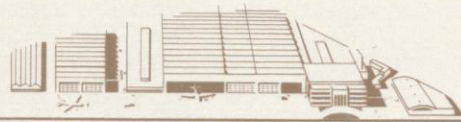
FACILITIES

The Board of Directors, during the year 1950, authorized the expenditure of \$8,290,000 for capital assets. Of this, \$1,090,000 was for the replacement of existing machinery and equipment and \$5,800,000 for new items. Modernization of the company's wind tunnel, at a cost of \$1,400,000, also was authorized and constituted the largest single item acted on by the Board.

The great value of the company-owned tunnel has been proved and much of the success of airplanes bearing the Boeing name has been due to the company's ability to conduct thorough aerodynamic tests of each new model prior to construction. At present the tunnel can test only at speeds below the speed of sound. In the future, however, it is essential that the company test models at higher speeds, and the authorized modernization will permit this. During the time the company's facility is closed, much of the necessary testing, up to the capacity of the University of Washington wind tunnel, will be done in that tunnel.

In considering capital asset requirements, it is evident that many of the items are of an emergency nature, made necessary because of present and proposed expansion of the company's facilities in connection with the defense effort. Consequently, the government has agreed to make a substantial portion of the machinery and equipment available by means of a facilities contract. A considerable amount of the equipment already authorized will be supplied by the government. This action will assist the company to conserve working capital to meet requirements of the expanded production program and to finance those items of a capital nature not available through the government.

In addition to machinery and equipment, a building program will be required in order to perform the contracts which the company now



has or which are in prospect. It is expected that these buildings will be provided in part by the company and in part by the government. Outside consultants are now working with the company to determine the necessary scope of this program.

The greatly increased cost of buildings, machinery and equipment has become a matter of concern. For example, planers costing \$67,642 in 1943 are being replaced at a cost of \$180,000, and surface grinders of necessary capacity now require three times the 1942 investment. Comparable increases are being experienced in all categories due to rising costs and to the necessity of providing facilities of greater capacity. Because the net earnings in prospect will be small in terms of present-day purchasing power, it is evident that the acquisition of substantial quantities of new machinery and equipment or an investment in necessary new buildings will constitute an encroachment on the working capital of the company.

Utilization of Facilities

The company has continued to operate Plants 1 and 2 in Seattle and, in addition, has greatly expanded activity in the Renton facility, which is owned by the government and which was used during the war for the production of Boeing B-29s. The company-owned plant at Wichita is in full use, and expanding activity in connection with the B-47 program has required complete utilization of the government-owned facility originally constructed for the production of Boeing B-29s. Present floor space owned or leased amounts to 5,173,298 square feet at Seattle-Renton, and 3,130,794 square feet at Wichita, as compared with 4,530,145 square feet at Seattle-Renton and 3,092,772 at Wichita at the end of the preceding year.





UPPER LEFT—Boeing "flying-boom" system of inflight refueling, capable of fuel transfer at higher rates, higher altitudes than earlier hose type, has been adopted by Strategic Air Command to lengthen range of U. S. bombers. Photo shows Boeing KC-97 tanker refueling B-50 bomber with "boom."

ABOVE—Boeing B-50s like these, together with the combat-proven Boeing B-29s, are standard medium bombers of America's present strategic air arm. Both serve as potent deterrents to the threat of aggression; both are ready to strike back.

LEFT—From production lines at Boeing Wichita factory a new force of medium bombers is emerging — the sweptwing, six-jet B-47s, which are receiving great emphasis from U. S. Air Force.

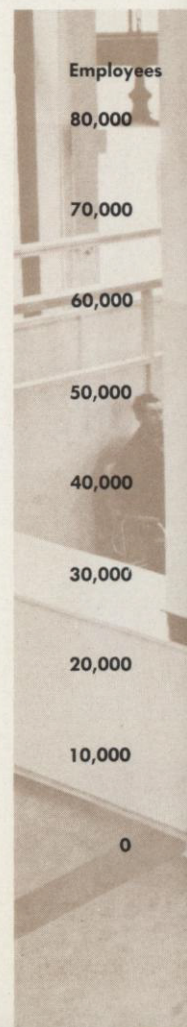
LABOR RELATIONS

A collective bargaining agreement was concluded May 22, 1950, with Aeronautical Industrial District Lodge No. 751, International Association of Machinists, the certified bargaining agent for production workers at Seattle-Renton. An adjustment of paid holidays and increased vacation benefits costing approximately five cents per hour was included. This agreement was for a period of one year.

The labor agreement now in effect permits supervisors to place emphasis on individual ability and accomplishment. The immediate supervisor carries the initial responsibility for accomplishing the company's desire to achieve maximum fairness and impartiality in relationships with employees. All levels of management are cognizant of the responsibility which accompanies the increased latitude provided by the current agreements, with a resultant marked improvement in relations with employees and their union representatives.

It also has become apparent that the union and union members have attained an increased awareness of the problems of management and a definite spirit of cooperation has been in evidence during the past year. The soundness and amicability of the labor-management relationship in the Seattle division is best illustrated by the fact that only one formal grievance was filed by any union during 1950 — and that grievance was withdrawn by the union after investigation. The performance record of the company attests to the results which can be attained with labor and management working together.

A revised union agreement was signed December 30, 1950, with Aeronautical Industrial District Lodge No. 70, International Association of Machinists, the certified bargaining agent for production workers at Wichita. The Wichita agreement provides for reopening June 1, 1951, with negotiation limited to wages only. Employee relations at this division have continued on a sound and amicable basis.

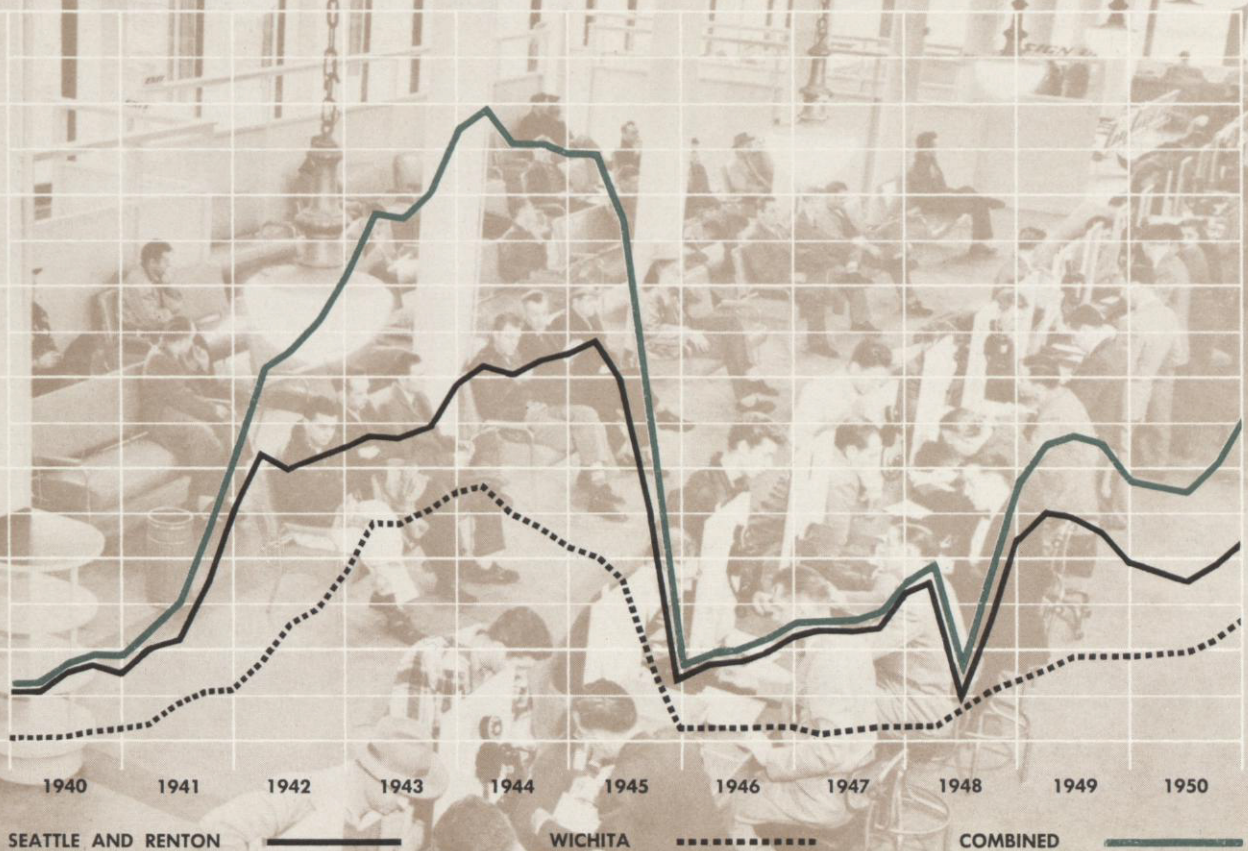




In November, following establishment of a pattern by the air-frame industry on the West Coast of granting voluntary 6% wage and salary increases, both divisions of the company granted a 6% wage and salary increase to non-supervisory employees and to lower-level management personnel, together with selective increases to middle-level management employees.

Employment as of December 31, 1950, totaled 22,463 at Seattle-Renton and 15,947 at Wichita, as compared with 19,142 and 9,358, respectively, at the close of the year 1949.

EMPLOYMENT

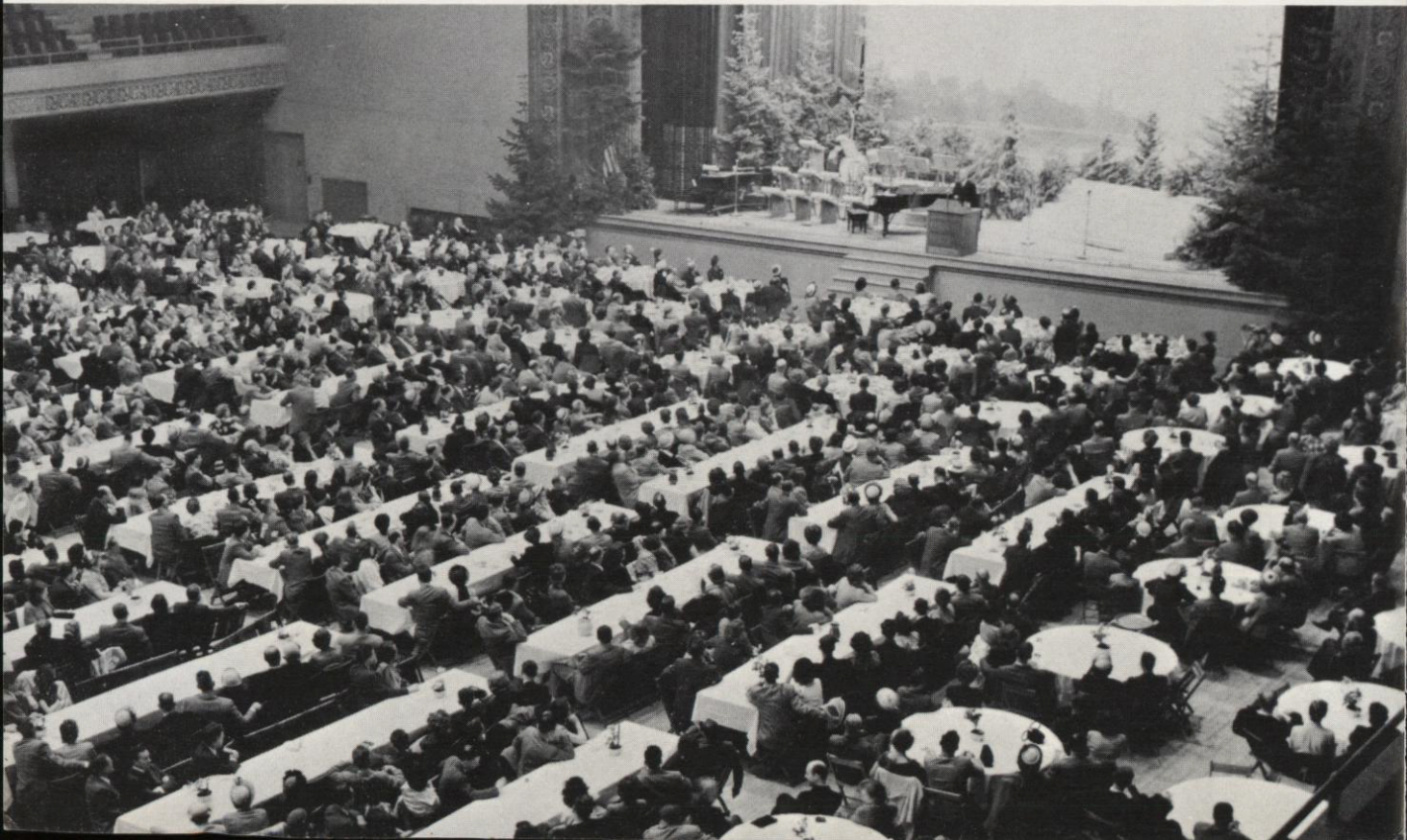


INCENTIVE COMPENSATION

At the 1950 annual meeting, the stockholders authorized the modification of the Incentive Compensation Plan to permit the participation of a larger number of individuals. Following this authorization, the sum of \$500,000 was distributed to 2,095 persons.

In accordance with the stockholder approved Plan, the Board of Directors has set aside the sum of \$1,400,000 for distribution in 1951.

The government, recognizing that the Plan is designed to improve efficiency and hence reduce the cost of its products, permits the inclusion of a substantial portion of the award as a contract charge. The entire award is recognized as a deduction in determining the income taxes payable by the company.



LITIGATION

The suit which the company brought against the Aeronautical Industrial District Lodge No. 751 and the International Association of Machinists to recover damages suffered as a result of the 1948 strike was dismissed before trial by the United States District Court. The company has appealed the decision and in the event the appellate court reverses the District Court's ruling, the case would be remanded for trial. Damages are claimed by Boeing in the sum of \$9,045,000.

In an action instituted by Northwest Airlines, Inc., damages in the total amount of \$24,798,506 were claimed, arising out of the purchase of ten Model 377 Stratocruisers. Essentially it is an action based upon an alleged breach of contract by Boeing, the principal claims being that there were unexcused delays in delivery of aircraft and that the airplanes did not conform to contract requirements. Preliminary motions of the company are pending before the Court and the company's answer to the complaint is not yet due and has not been filed. Statements regarding this action and the record of the Stratocruisers in service are made elsewhere in this report.

LEFT—A management development program emphasizes coordination through all levels of supervision. Here President W. M. Allen tells supervisors and wives of company's progress.

RIGHT—Employee initiative is encouraged through "suggestion system." For an outstanding idea, E. W. McLachlin (right) was chosen Seattle division's "Man of the Year" for 1950.



BOARD OF DIRECTORS

On February 26, 1951, the number of directors was increased from 9 to 13. It was the opinion of the 9 directors constituting the Board that the increasing complexity and volume of the company's business made it desirable to obtain wider representation on the Board. Two of the new members are outstanding Northwest businessmen of wide experience and the other two are senior officers of the company.

THE SALES DOLLAR

Payrolls	\$134,583,018
Material and Parts	\$117,987,077
Other Expenses	\$ 24,488,685
Taxes	\$ 19,365,644
Net Earnings	\$ 10,826,558
Total	\$307,250,982

8.0%

OTHER EXPENSES

6.3%

TAXES

3.5%

NET EARNINGS

MATERIAL & PARTS

38.4 %

PAYROLLS

43.8 %

Result of 1950 Operations

Net earnings for 1950 in the amount of \$10,826,558, or at the rate of \$10.00 per share, compares with net earnings of \$4,411,348, or \$4.07 per share for the year 1949. Dividends paid during the year amounted to \$3,247,076, representing payment of \$3.00 per share. The book value per share of stock at the year end was \$49.79, an increase of \$7.00 for the year.

The total loss on the Stratocruiser project, including warranty costs, was \$1,520,169 less than the total of the amounts written off in previous years. This amount has been deducted from cost of sales during 1950.

Renegotiation

Approximately 89% of the company's business in 1950 was subject to renegotiation. All major fixed-price contracts contained price redetermination provisions and substantial downward revisions have been made, reflecting decreased cost of airplanes and spare parts to the government. The effect of these refunds has been to reduce the overall profit on fixed-price contracts (which are also subject to renegotiation) to a level approximating the profit rate originally negotiated with the government. Similarly, with respect to cost-plus-a-fixed-fee contracts, the profit rate actually realized has been substantially equivalent to the fees as originally negotiated. In light of the foregoing, it is the company's opinion that if due consideration is given to the company's efficiency and contribution to the defense effort, little or no refund will be required under the renegotiation provision of the various contracts.

To date settlements have not been made with the Renegotiation Board with respect to the statements filed for the years 1948 and 1949. The company has had no postwar experience in renegotiation settle-

ments and it is not possible to determine what the final outcome may be. In any event, it is believed that adequate provision has been included as a part of the allowance for contract adjustments to cover any required renegotiation refunds.

Backlog of Orders

The unfilled orders at December 31, 1950, totaled approximately \$1,000,000,000, substantially all of which represented military business. Of this amount, approximately 14 per cent was covered by cost-plus-a-fixed-fee contracts and the balance was covered by fixed price contracts. All of the major fixed price contracts contain price redetermination provisions.

Federal Taxes

Provision has been made for federal income and excess profits taxes at the maximum over-all rate established by the Excess Profits Tax Act of 1950. The Act includes various relief sections which may ultimately reduce the company's tax liability for the year but present indications are that any such reduction would be relatively nominal in amount.

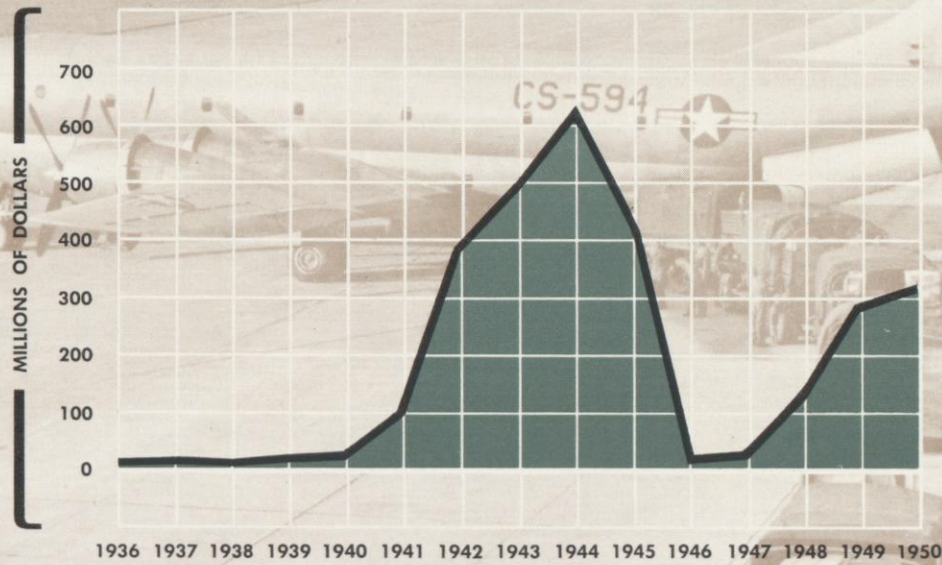
Loans

The company had a strong working capital position as of December 31, 1950. However, expanding operations and accelerating delivery schedules, together with expenditure of funds for facilities necessary to support the expanded production, will make necessary substantial borrowings during 1951. These will be negotiated as required. In October, 1950, lines of credit aggregating \$30,000,000 were arranged but there had been no borrowing thereunder as of the end of the year.

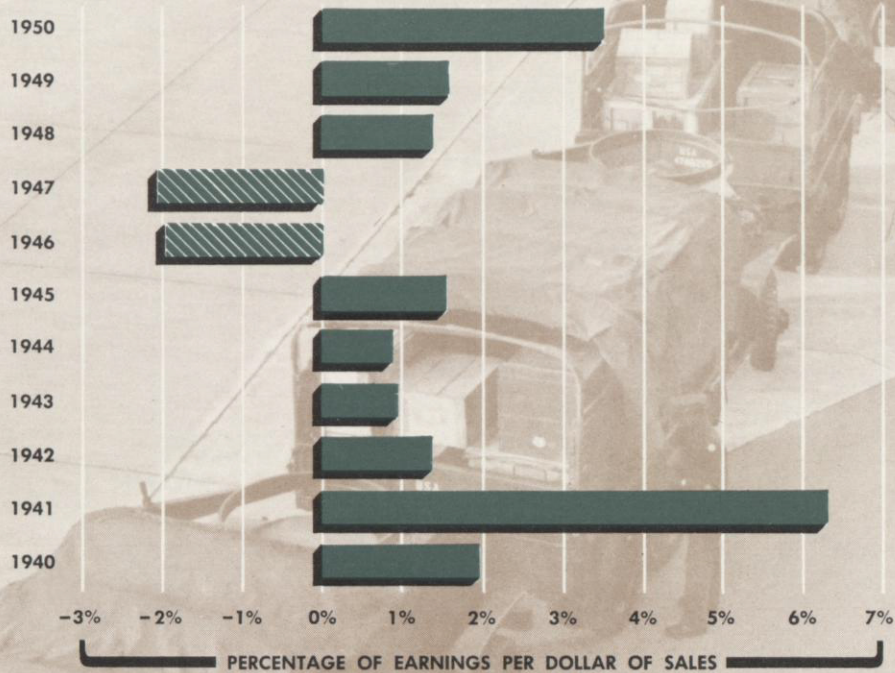
Boeing Aircraft of Canada Limited

Income tax and other requirements have prevented the complete liquidation of Boeing Aircraft of Canada Limited but during the year \$181,415 was remitted. It is now anticipated that final settlement will be accomplished in the near future. The investment remaining as of December 31, 1950 was \$47,301.

NET SALES



NET EARNINGS PER DOLLAR OF SALES



BALANCE SHEET

BOEING AIRPLANE

ASSETS

CURRENT ASSETS:

Cash		\$ 15,952,657
United States Treasury securities, at cost.....		10,009,465
Accounts receivable -		
United States	\$12,998,654	
Commercial and other.....	2,401,249	15,399,903
Estimated amounts receivable from the United States -		
For expenditures under cost-plus-a-fixed-fee and		
facilities contracts and applicable accrued fees.....	\$44,772,220	
For deliveries under contracts for which prices have		
not been established.....	13,935,490	58,707,710
Accumulated charges on contracts with the United States,		
substantially all of which are subject to price redeter-		
mination, less estimated cost of deliveries.....	\$22,245,335	
Less progress payments.....	10,182,686	12,062,649
Inventories of materials and purchased and manufactured		
parts at the lower of average cost or market, less allow-		
ance for obsolescence of \$440,000.....		3,562,377
Prepaid expenses		409,364
TOTAL CURRENT ASSETS		\$116,104,125

OTHER ASSETS:

Deposits with mutual insurance companies and balance		
of investment in Canadian subsidiary in liquidation		
(\$47,301)		285,317

PROPERTY, PLANT, AND EQUIPMENT:

Land (\$263,734) and buildings, at cost.....	\$11,247,372	
Machinery, tools, and equipment, at cost.....	11,849,403	
	\$23,096,775	
Less allowance for accumulated depreciation and amor-		
tization	15,455,626	7,641,149
		\$124,030,591

See notes to

LIABILITIES AND STOCKHOLDERS' INVESTMENT

CURRENT LIABILITIES:

Accounts payable	\$ 15,435,948
Salaries and wages.....	10,919,447
Taxes other than taxes on income.....	2,408,797
Amounts payable to the United States arising from contract price revisions with respect to deliveries under price redetermination contracts.....	23,565,005
Allowance for contract adjustments including renegotiation, net of taxes.....	1,200,000
Incentive compensation for officers and employees.....	1,400,000
Federal and state taxes on income.....	15,201,014
TOTAL CURRENT LIABILITIES.....	\$ 70,130,211

STOCKHOLDERS' INVESTMENT:

Capital stock, par value \$5 a share -	
Authorized - 1,250,000 shares	
Issued and outstanding - 1,082,454 shares.....	\$ 5,412,270
Additional paid-in capital (unchanged during the year) ..	8,142,064
Earnings retained for use in the business.....	<u>40,346,046</u>
	53,900,380

\$124,030,591

STATEMENT OF NET EARNINGS

BOEING AIRPLANE COMPANY

Year Ended December 31, 1950

Sales, less allowance (\$2,500,000) for contract adjustments including renegotiation.....		\$307,250,982
Other income		555,280
		<u>\$307,806,262</u>
Cost of sales, excluding applicable portion of certain items set forth below.....	\$276,711,310	
General and administrative expenses.....	3,144,753	
Incentive compensation for officers and employees	1,400,000	
Research expenses	1,102,045	
Depreciation and amortization of plant and equipment	804,256	
Sales and advertising expenses.....	305,521	
Interest expense	111,819	
Federal and state taxes on income (including \$2,520,000 for excess profits taxes).....	13,400,000	296,979,704
NET EARNINGS		<u>\$ 10,826,558</u>

See notes to financial statements.

EARNINGS RETAINED FOR USE IN THE BUSINESS

BOEING AIRPLANE COMPANY

Year Ended December 31, 1950

Balance at January 1, 1950.....	\$32,766,564
Net earnings for the year.....	10,826,558
	<u>\$43,593,122</u>
Cash dividends paid, \$3 a share.....	3,247,076
Balance at December 31, 1950.....	<u>\$40,346,046</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE A — Statement of certain accounting policies and change with respect thereto:

Sales under fixed price and price redetermination contracts are included in the accounts as deliveries of completed units are made. The amount of sales is estimated with respect to deliveries under contracts for which prices have not been established and recognition is given to anticipated adjustments under price redetermination contracts where required.

Sales under cost-plus-a-fixed-fee contracts are included in the accounts as costs are incurred, to the extent that such costs are considered reimbursable, together with all applicable fees. This represents a change in the accounting policy from that of former years which was that the withheld portion of fees was not included in income until collectible. The effect of the change is to increase sales for 1950 by \$1,445,785, which after deduction of federal and state taxes on income increases the net earnings for the year by \$691,230.

Cost of sales under fixed price and price redetermination contracts is computed on the basis of the estimated average cost of units of the contract, such estimates being revised periodically so that they approach actual average cost as the contracts progress to completion. Under cost-plus-a-fixed-fee contracts, cost of sales consists of applicable expenditures made or accrued.

NOTE B — Northwest Airlines, Inc. suit:

On September 8, 1950, Northwest Airlines, Inc., brought an action against the company for alleged damages in the amount of \$24,798,506 arising out of the purchase of ten Stratocruisers. The action is still in the preliminary stages and the company's answer is not yet due. In connection with its answer the company expects to file and prosecute counter claims against Northwest for damages in a substantial amount arising out of the same transaction. Counsel for the company advise that at this time it is impossible to make an accurate prediction of the outcome of this litigation but in their opinion it is unlikely that the net recovery in this suit by either party against the other would exceed a relatively small amount as compared to the amount being claimed by Northwest.

TOUCHE, NIVEN, BAILEY & SMART

CERTIFIED PUBLIC ACCOUNTANTS

1411 FOURTH AVENUE
SEATTLE 1, WASH

March 14, 1951

Board of Directors,
Boeing Airplane Company,
Seattle, Washington.

We have examined the balance sheet of Boeing Airplane Company as of December 31, 1950, and the related statements of net earnings and earnings retained for use in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except that we were unable to obtain satisfactory confirmations of receivables from the United States by direct communication. We satisfied ourselves as to such accounts by other auditing procedures.

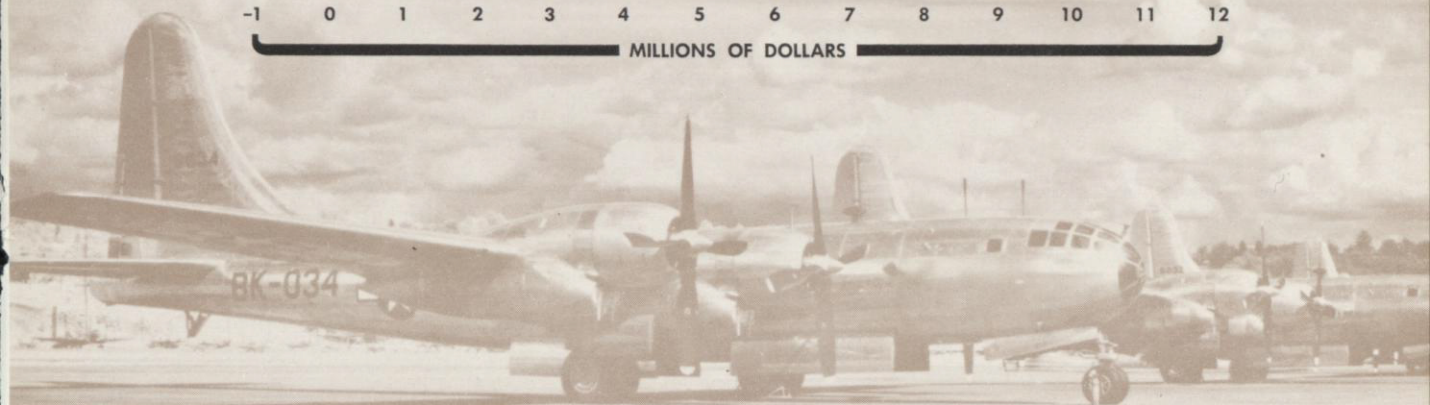
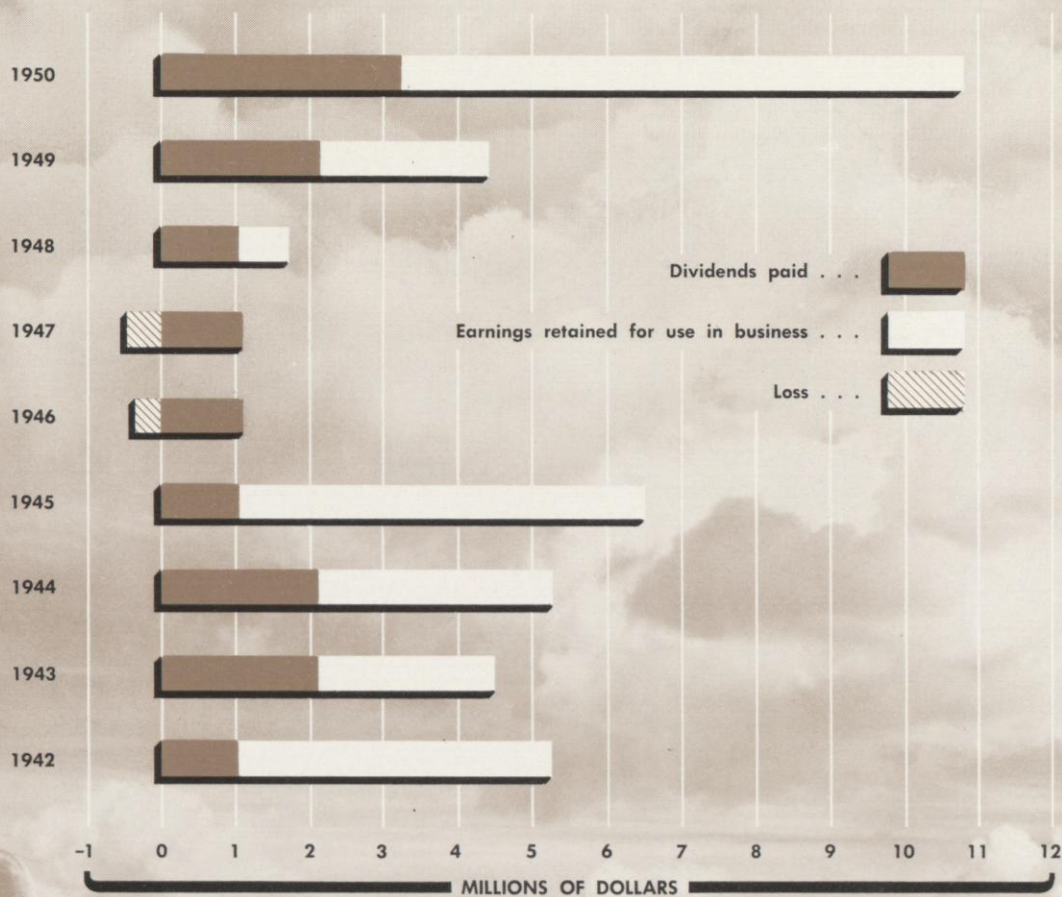
In our opinion, the accompanying balance sheet and statements of net earnings and earnings retained for use in the business present fairly the financial position of Boeing Airplane Company at December 31, 1950, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year except with respect to the change in the policy of accruing fees referred to in Note A, which change we approve.

Also in our opinion the action of the Board of Directors on March 14, 1951, in setting aside from the earnings of the year 1950 a sum of \$1,400,000 under the Incentive Compensation Plan for Officers and Employees, is in conformity with the provisions contained in the first paragraph of Section 2 of such plan.

Touche, Niven, Bailey & Smart

Certified Public Accountants

DIVIDENDS PAID AND ANNUAL EARNINGS RETAINED FOR USE IN BUSINESS 1942 - 1950



CONDENSED COMPARATIVE STATEMENTS OF FINANCIAL POSITION

December 31, 1950 and December 31, 1949

	December 31		Increase Decrease*
	1950	1949	
CURRENT ASSETS:			
Cash and United States Treasury securities	\$ 25,962,122	\$ 25,957,106	\$ 5,016
Accounts receivable and estimated amounts receivable from the United States	74,107,613	50,287,969	23,819,644
Accumulated charges on contracts, inventories, and advances to subcontractors	15,625,026	29,980,789	14,355,763*
Prepaid expenses	409,364	453,076	43,712*
TOTAL CURRENT ASSETS	\$116,104,125	\$106,678,940	\$ 9,425,185
CURRENT LIABILITIES:			
Accounts payable and accrued expenses ..	\$ 30,164,192	\$ 21,450,211	\$ 8,713,981
Amounts payable arising from contract price revisions	23,565,005	14,161,856	9,403,149
Allowance for contract adjustments, net of taxes	1,200,000		1,200,000
Federal and state taxes on income	15,201,014	4,081,291	11,119,723
Advances on contracts		26,779,515	26,779,515*
TOTAL CURRENT LIABILITIES	\$ 70,130,211	\$ 66,472,873	\$ 3,657,338
WORKING CAPITAL	\$ 45,973,914	\$ 40,206,067	\$ 5,767,847
OTHER ASSETS	285,317	505,199	219,882*
PROPERTY, PLANT, AND EQUIPMENT, net	7,641,149	5,609,632	2,031,517
NET ASSETS	\$ 53,900,380	\$ 46,320,898	\$ 7,579,482
REPRESENTED BY STOCKHOLDERS' INVESTMENT IN:			
Capital stock	\$ 5,412,270	\$ 5,412,270	\$ —
Additional paid-in capital	8,142,064	8,142,064	
Earnings retained for use in the business	40,346,046	32,766,564	7,579,482
	\$ 53,900,380	\$ 46,320,898	\$ 7,579,482
Stockholders' equity per share	\$49.79	\$42.79	\$7.00
Ratio of current assets to current liabilities	1.66 to 1	1.60 to 1	

BOARD OF DIRECTORS

WILLIAM M. ALLEN
President

WELLWOOD E. BEALL
Vice President—
Engineering and Sales

DARRAH CORBET
President, Smith Cannery
Machines Company
Seattle, Washington

C. L. EGTVEDT
Chairman

D. A. FORWARD
Senior Vice President
The National City Bank
of New York

ARTEMUS L. GATES
New York City

FRED P. LAUDAN
Vice President—
Manufacturing

WILLIAM G. REED
Chairman of the Board and
President, Simpson Logging
Company, Seattle, Washington

J. E. SCHAEFFER
Vice President—
General Manager,
Wichita Division

DIETRICH SCHMITZ
President, Washington
Mutual Savings Bank
Seattle, Washington

EDWARD C. WELLS
Vice President—
Engineering

J. P. WEYERHAEUSER, JR.
President, Weyerhaeuser
Timber Company
Tacoma, Washington

J. O. YEASTING
Vice President—
Controller

OFFICERS

WILLIAM M. ALLEN	President
C. L. EGTVEDT	Chairman
WELLWOOD E. BEALL	Vice President—Engineering and Sales
FRED P. LAUDAN	Vice President—Manufacturing
J. E. SCHAEFFER	Vice President—General Manager, Wichita Division
EDWARD C. WELLS	Vice President—Engineering
J. O. YEASTING	Vice President—Controller
J. P. MURRAY	Vice President—Eastern Representative
CLIF BARRON	Vice President—Ass't. General Manager, Wichita Division
F. B. COLLINS	Vice President—Sales
A. F. LOGAN	Vice President—Industrial Relations
HAROLD E. BOWMAN	Secretary and Treasurer

General Counsel

HOLMAN, MICKELWAIT, MARION, PRINCE & BLACK

General Auditors

TOUCHE, NIVEN, BAILEY & SMART

Transfer Agent

CITY BANK FARMERS TRUST COMPANY, NEW YORK

Registrar

THE NATIONAL CITY BANK OF NEW YORK, NEW YORK

